THORNAPPLE KELLOGG SCHOOLS

Barry, Allegan, Kent and Ionia Counties, Michigan

Report on Financial Statements
For the year ended June 30, 2005

THORNAPPLE KELLOGG SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2005

C O N T E N T S

C O N T E N T S

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Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

September 1, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of Thornapple Kellogg Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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To the Board of Education
Thornapple Kellogg Schools

September 1, 2005

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Thornapple Kellogg Schools' basic financial statements. The additional information on pages 31 to 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2005

As management of the Thornapple Kellogg Schools ("the District"), a K-12 school district located in Barry, Allegan, Kent and Ionia Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Additional Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.

- The remaining statements are *fund financial statements* that focus on individual parts of the District. These statements look at the District's operations in more detail than the district-wide statements by providing information about the District's most significant funds – the General Fund and 2002 Capital Projects Fund, with all other funds presented in one column as Nonmajor Funds.

The of fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Additional Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities and use the accrual basis of accounting. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are "measurable" and "currently available". Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds – consisting of the 1996, 2002 and 2004 Debt funds.
- Special Revenue Funds – consisting of the Food Service, Athletic, and the Public Library Funds.
- Capital Projects Funds – consisting of the 2002 Capital Projects Fund

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

The following summary of net assets provides the perspective of the District as a whole as of June 30, 2005 and 2004, respectively.

	2005	2004	Percentage change
Assets			
Current assets	$ 11,314,455	$ 16,252,858	(30.38)%
Deferred charges, net	678,324	718,225	(5.56)%
Capital assets	60,077,665	53,579,246	12.13%
Less accumulated depreciation	(10,677,517)	(9,300,179)	(14.81)%
Capital assets, net book value	49,400,148	44,279,067	11.57%
Total assets	61,392,927	61,250,150	.23%
Liabilities			
Current liabilities	7,153,637	6,065,124	17.95%
Non-current liabilities	48,348,583	49,388,483	(2.11)%
Total liabilities	55,502,220	55,453,607	.09%
Net Assets			
Invested in capital assets, net of related debt	3,218,178	3,061,344	5.12%
Restricted	324,367	979,164	(66.87)%
Unrestricted	2,348,162	1,756,035	33.72%
Total net assets	$ 5,890,707	$ 5,796,543	1.62%

Capital assets net of related debt, $3.2 million, is the original cost of the District's capital assets, less depreciation plus remaining fund balance in 2002 capital projects fund, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of $.3 million are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of $2.3 million was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The Statement of Activities presents changes in net assets from operating results:

	2005	2004	Percentage change
Program Revenues			
Charges for services	$ 968,426	$ 858,188	12.85%
Operating grants	1,216,562	1,127,607	7.89%
General Revenues			
Propery taxes	4,957,462	4,448,013	11.45%
State school aid, unrestricted	18,385,599	17,695,423	3.90%
Interest earnings	71,728	400,198	(82.08)%
Intermediate	1,141,242	809,014	41.07%
Other	143,886	42,612	237.67%
Total revenues	26,884,905	25,381,055	5.93%
Expenses			
Instruction	13,543,922	12,943,257	4.64%
Supporting services	7,705,222	7,476,201	3.06%
Community services	358,813	318,113	12.79%
Food service	890,247	895,382	(.57)%
Athletics	740,363	601,498	23.09%
Public library	50,400	48,198	4.57%
Intermediate	1,367,352	881,185	55.17%
Interest on long-term debt	2,134,422	2,376,400	(10.17)%
Total expenses	26,790,741	25,540,234	4.90%
Increase (decrease) in net assets	94,164	(159,179)	159.16%
Net assets, beginning of year	5,796,543	5,955,722	(2.67)%
Net assets, end of year	$ 5,890,707	$ 5,796,543	1.62%

Local property taxes and unrestricted state aid supported the majority of the governmental activities. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District appreciates the support of the community in maintaining our facilities, as $2.9 million of the $4.9 million in tax revenue is generated by a debt millage specifically designated for capital expenditures.

Of the District's total revenues available to operate the District, a little over 3.6 percent or $.9 million came from fees charged to those who benefited from the programs. Approximately 4.5 percent or $1.2 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

The expenses represent the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in Instruction, which accounted for $13.5 million or 50.5 percent of total expenses. Direct Support Services cost $7.7 million or 28.8 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of $94,164 or approximately 1.6 percent. The increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Thornapple Kellogg School's funds are described as follows:

The General Fund is the principal operating fund. The General Fund had total revenues of $22,754,719, total expenditures of $21,889,689, and total other financing uses of $430,000. It ended the fiscal year with a fund balance of $3,127,983, up from $2,692,953 as of June 30, 2004. The District anticipated the increase in fund balance as additional reimbursement revenues were received from the State of Michigan for Special Education. The fund balance is appropriately reserved and designated to support the District's long range budget plan.

2002 Capital Projects Fund
The District's $24 million improvement project is funded by the bonds issued in November, 2002 and accounted for the 2002 Capital Projects Fund. Current year investment earnings totaled $71,065 and ongoing construction/equipment expenditures totaled $6,518,785, leaving a remaining fund balance at June 30, 2005 of $2,726,436 with which to complete the projects.

Nonmajor Funds

Special Revenue Funds
The District operates three Special Revenue Funds, for food service, athletics and the public library. Total revenues were $1,111,101 and other financing sources were $430,000, with total expenditures of $1,549,675. The ending fund balances of each fund were Athletics of $24,776, Food Service of $5,374 and Public Library of $13,347.

Debt Service Funds
The District operates three Debt Service Funds for the 1996 and 2002 bond issues, and the 2004 refunding bond issue. Total revenues were $2,993,330 and total expenditures were $3,660,820. The ending fund balances in the Debt Service Funds totaled $669,630.

Fiduciary Funds
The Student Activities Fund and the Private Purpose Trust Fund are operated as fiduciary funds of the District. The assets of these funds are being held for the benefit of the District's employees and students. Balances on hand at June 30, 2005 totaled $275,545.

General Fund Budgetary Highlights

	Original budget	Final budget	Actual	Variance with final budget positive (negative)	% variance
Total revenues and other	$ 22,363,425	$ 22,553,275	$ 22,754,719	$ 201,444	0.89
Expenditures					
Instruction	13,100,015	12,901,905	12,702,276	199,629	1.55
Supporting services	8,526,661	7,528,020	7,472,748	55,272	0.73
Community services	356,238	378,529	347,313	31,216	8.25
Intermediate	961,500	1,435,860	1,367,352	68,508	4.77
Capital outlay	150,000				
Transfer	430,000	430,000	430,000		
	$ 23,524,414	$ 22,674,314	$ 22,319,689	$ 354,625	1.56

Over the course of the year, the District revised the annual operating budget in January and June. The District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations.

Major changes to the General Fund original budget were:

- Itinerant staff was originally budgeted in supporting services and was reclassified to Intermediate expenses.

- Final changes made in June to reflect the reductions in non-salary expenditures, deferring purchase of buses and equipment and reducing non emergency spending.

- The District's final, actual general fund expenditures differed by $354,625 from the final budget, a variance of 1.56 percent. The reduction of actual expenditures over budget was accomplished without cutting instructional programs. Increased revenues for special education and conservative budgeting also contributed to this difference.

Analysis of Financial Position

The District remains in stable condition as of June 30, 2005. Management continues to make conservative reductions of operating expenses in every possible area and increase revenues in appropriate areas as a contribution to costs incurred. Management also intends to utilize the remaining fund balance, as needed, to continue to fund quality educational programs and curriculum during inevitable economic downturns in the future.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested $60 million in a broad range of capital assets, including land, school buildings, vehicles, athletic facilities, computer equipment and software, and administrative offices. This amount represents a net increase of $6.5 million or 12% from last year. (More detailed information about capital assets can be found in Note 4 in the Notes to Financial Statements.) Total depreciation expense for the year was $1,397,704.

The District's fiscal year 2005 capital budget projects spending another $2.7 million for capital projects, principally in three areas:

- $.9 million to complete the construction at the High School.
- $1.3 million for the purchase of buses and to continue to update technology and equipment and furnishings in all instructional areas.
- $.5 million for purchase of additional land.

At June 30, 2005, the District's investment in capital assets (net of accumulated depreciation), was $49.4 million. This represents an increase of approximately $5.1 million over the previous year-end. Net book value of capital assets are detailed as follows:

	2005	2004
Land	$ 760,000	$ 760,000
Land improvement	1,525,186	350,801
Building and additions	35,977,021	27,197,220
Furniture and equipment	1,508,814	326,105
Vehicles	312,674	216,550
Construction in progress	9,316,453	15,428,391
Net capital assets	$ 49,400,148	$ 44,279,067

Long-Term Debt

At year end, the District had $50.4 million in general obligation bonds and other long-term debt outstanding – a net decrease of approximately $1 million from last year.

- The District continued to pay down its debt, retiring $1.8 million of outstanding bonds and capital leases.

- $78,661 was added to employee incentive programs during the year, and $268,139 of this liability was used/paid during the year.

The District's bond rating for General Obligation, Unlimited Tax debt remains "Aa3". The District's rating for General Obligation, Limited Tax debt remains "A1". The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within a district's boundaries. The District's other obligations include severance pay and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

We considered many factors when setting the District's 2005-06 fiscal year budget. One of the most important factors affecting our budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2005-06 budget is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The 2005-06 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 70% percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, the District funding is heavily dependent on the State's ability to fund local school operations.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. In fiscal year 2002-03, the State set the foundation allowance at $6,700 per pupil. Later that same year, the State issued Executive Order cuts that resulted in a reduction of approximately $183,000 in revenue for the District. In fiscal year 2003-04, the State again set the foundation allowance at $6,700 per pupil. State ordered cuts later that same year resulted in a reduction of approximately $213,000 in revenue for the District. The foundation allowance was held at $6,700 for 2004-05, the third year in a row with no increase. Early indications from the State for funding levels for fiscal year 2005-06 indicate the foundation allowance will be set at $6,875 per pupil and though it is an increase, recent State revenue-estimating conferences are unclear whether actual collections are meeting the estimates used in setting the 2005-06 foundation allowance funding level. The increase scarcely covers the increase in the retirement rate and the rising costs of health care for District employees.

Other factors bearing on the District:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it. In 2005, the District must implement the more stringent academic standards mandated by the State Board of Education. The No Child Left Behind federal mandate has an impact on overall staffing and expenditures for professional development.

- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, while the State has managed to maintain the growth in the rate districts fund the retirement system over the past few years, the increase in the number of retirees projected to occur over the next few years may result in higher annual increases.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Thornapple Kellogg Schools, 10051 Green Lake Road, Middleville, MI 49333.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash (note 3)	$ 4,611,550
Investments (note 3)	3,070,904
Tax receivables	64,767
Due from other governmental units	3,517,043
Other receivables	27,050
Inventories	23,141
TOTAL CURRENT ASSETS	11,314,455
NONCURRENT ASSETS:	
Deferred charges, net of amortization	678,324
Capital assets (note 4)	60,077,665
Less accumulated depreciation (note 4)	(10,677,517)
TOTAL NONCURRENT ASSETS	50,078,472
TOTAL ASSETS	$ 61,392,927
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	$ 622,103
Note payable (note 5)	2,163,000
Due to other governmental units	430,987
Accrued interest	378,696
Accrued payroll and withholdings	1,432,722
Deferred revenue	32,280
Current portion of long-term obligations (note 6)	2,093,849
TOTAL CURRENT LIABILITIES	7,153,637
NONCURRENT LIABILITIES:	
Bonds payable, less current portion (note 6)	40,767,788
Compensated absences and early retirement, less current portion (note 6)	631,481
State school bond loan payable (note 6)	6,949,314
TOTAL NONCURRENT LIABILITIES	48,348,583
TOTAL LIABILITIES	55,502,220
NET ASSETS:	
Invested in capital assets, net of related debt	3,218,178
Restricted for debt service	324,367
Unrestricted	2,348,162
TOTAL NET ASSETS	5,890,707
TOTAL LIABILITIES AND NET ASSETS	$ 61,392,927

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

		Program revenues		Governmental activities
Functions/programs	**Expenses**	**Charges for services**	**Operating grants**	**Net (expense) revenue and changes in net assets**
Governmental activities:				
Instruction	$ 13,543,922	$ -	$ 889,099	$ (12,654,823)
Support services	7,705,222	-	20,782	(7,684,440)
Community services	358,813	166,544	-	(192,269)
Food services	890,247	567,436	293,838	(28,973)
Athletics	740,363	205,614	-	(534,749)
Public Library	50,400	28,832	12,843	(8,725)
Intermediate	1,367,352	-	-	(1,367,352)
Interest on long-term debt	2,134,422	-	-	(2,134,422)
Total governmental activities	$ 26,790,741	$ 968,426	$ 1,216,562	(24,605,753)
General revenues:				
Property taxes, levied for general purposes				1,970,829
Property taxes, levied for debt service				2,986,633
Investment earnings				71,728
State sources, unrestricted				18,385,599
Intermediate sources				1,141,242
Other				143,886
Total general revenues				24,699,917
CHANGE IN NET ASSETS				94,164
NET ASSETS, beginning of year				5,796,543
NET ASSETS, end of year				$ 5,890,707

THORNAPPLE KELLOGG SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General fund	2002 Capital projects	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash (note 3)	$ 2,107,895	$ 1,799,665	$ 703,990	$ 4,611,550
Investments (note 3)	1,882,657	1,188,247	-	3,070,904
Taxes receivable	57,818	-	6,949	64,767
Due from other funds	16,000	62,059	-	78,059
Due from other governmental units	3,517,043	-	-	3,517,043
Other receivables	-	6,099	20,951	27,050
Inventories	-	-	23,141	23,141
TOTAL ASSETS	$ 7,581,413	$ 3,056,070	$ 755,031	$ 11,392,514
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 273,485	$ 329,634	$ 18,984	$ 622,103
Note payable (note 5)	2,163,000	-	-	2,163,000
Due to other funds	62,059	-	16,000	78,059
Due to other governmental units	430,987	-	-	430,987
Accrued interest	33,433	-	-	33,433
Accrued payroll and withholdings	1,432,722	-	-	1,432,722
Deferred revenue	57,744	-	6,920	64,664
TOTAL LIABILITIES	4,453,430	329,634	41,904	4,824,968
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	$ 216,016	$	$	$ 216,016
Reserved for capital outlay	-	2,726,436	-	2,726,436
Reserved for debt service	-	-	669,630	669,630
Reserved for inventory	-	-	5,374	5,374
Unreserved:				
Designated for retirement rate increase	200,000	-	-	200,000
Designated for retirement and sick leave payable	902,317	-	-	902,317
Designated for capital outlay	500,000	-	-	500,000
Designated for subsequent year expenditures	105,284	-	15,874	121,158
Undesignated	1,204,366	-	22,249	1,226,615
TOTAL FUND BALANCES	3,127,983	2,726,436	713,127	6,567,546
TOTAL LIABILITIES AND AND FUND BALANCES	$ 7,581,413	$ 3,056,070	$ 755,031	$ 11,392,514

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

TOTAL GOVERNMENTAL FUND BALANCES		$ 6,567,546
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	$ 60,077,665	
Accumulated depreciation is	(10,677,517)	
		49,400,148
Deferred charges, net of amortization		678,324
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Capital Lease		(13,672)
State school bond loan payable		(6,949,314)
Long term general obligations		(42,370,000)
Long term limited obligations		(253,744)
Compensated absences		(855,702)
Accrued voluntary severance plan		
Accrued interest is not included as a liability in government funds.		(345,263)
Deferred revenue expected to be collected after September 1, 2005:		
Property taxes at 6/30/05		32,384
Total net assets of governmental activities		$ 5,890,707

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General fund	2002 Capital projects	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	$ 2,016,139	$ -	$ 2,986,633	$ 5,002,772
Other local sources	301,858	71,065	787,112	1,160,035
Total local sources	2,317,997	71,065	3,773,745	6,162,807
Intermediate sources	1,141,242	-	24,004	1,165,246
State sources	18,670,903	-	49,242	18,720,145
Federal sources	624,577	-	257,440	882,017
Total revenues	22,754,719	71,065	4,104,431	26,930,215
EXPENDITURES:				
Current:				
Instruction	12,702,276	-	-	12,702,276
Support services	7,472,748	-	-	7,472,748
Community services	347,313	-	-	347,313
Food service	-	-	864,268	864,268
Athletics	-	-	635,007	635,007
Public Library	-	-	50,400	50,400
Interdistrict	1,367,352	-	-	1,367,352
Capital outlay	-	6,518,785	-	6,518,785
Debt service:				
Principal retirement	-	-	1,750,000	1,750,000
Interest and fiscal charges	-	-	1,910,820	1,910,820
Total expenditures	21,889,689	6,518,785	5,210,495	33,618,969
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	865,030	(6,447,720)	(1,106,064)	(6,688,754)
OTHER FINANCING SOURCES (USES):				
Proceeds from school bond loan fund	-	-	785,924	785,924
Operating transfers in	-	-	770,518	770,518
Operating transfers out	(430,000)	-	(340,518)	(770,518)
Total other financing sources (uses)	(430,000)	-	1,215,924	785,924
NET CHANGE IN FUND BALANCES	435,030	(6,447,720)	109,860	(5,902,830)
FUND BALANCES, beginning of year	2,692,953	9,174,156	603,267	12,470,376
FUND BALANCES, end of year	$ 3,127,983	$2,726,436	$ 713,127	$ 6,567,546

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in fund balances total governmental funds	$ (5,902,830)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities.	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,397,704)
Capital outlay	6,518,785
Accrued interest on bonds is recorded in the statement of activities	
when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	311,760
Accrued interest payable, end of the year	(345,263)
Proceeds and repayments of principal on long-term debt are other financing	
sources and expenditures in the governmental funds, but not in the statement of activities	
(where they are additions and reductions of liabilities)	
Repayment on capital lease	34,871
Principal repayment on general obligation bonds	1,750,000
Proceed from school bond loan fund	(785,924)
Current year's amortization of bond issuance costs	(39,901)
Long-term interest on school bond loan fund (accrued)	(193,798)
Long-term appreciation on capital appreciation bond (accrued)	
Revenue is recorded on the accrual method in the statement of activities; in the	
governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue, beginning of the year	(77,694)
Deferred revenue, end of the year	32,384
Compensated absences are reported on the accrual method in the statement of activities,	
and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and severance benefits, beginning of the year	1,045,180
Accrued compensated absences and severance benefits, end of the year	(855,702)
Change in net assets of governmental activities	$ 94,164

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	Agency fund	Trust fund
ASSETS		
Cash	$ 231,807	$ 37,039
Loans receivable	-	6,699
	$ 231,807	$ 43,738
LIABILITIES		
Due to student groups	$ 231,807	$ -
Due to employees	-	5,082
	231,807	5,082
NET ASSETS		
Held in trust for:		
Individuals and organizations	-	38,656
TOTAL LIABILITIES AND NET ASSETS	$ 231,807	$ 43,738

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2005

	Trust fund
Additions	
Interest earnings	$ 160
Deductions	
Loan writeoff	700
Flexible spending loss	445
Total deductions	1,145
Change in Net Assets	(985)
Net Assets, beginning of year	39,641
Net Assets, end of year	$ 38,656

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Thornapple Kellogg Schools ("the District") was organized under the School Code of the State of Michigan and services a population of approximately 2,900 students. The District is governed by the Thornapple Kellogg Schools Board of Education (the "Board"), consisting of seven members elected to four-year terms. The Board has decision-making authority, the power to designate management, responsibility for the primary accountability for fiscal matters.

The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services.

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

The financial statements of Thornapple Kellogg Schools have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the District-wide statement of net assets is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and fund financial statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted State Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues.*

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

The District-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This District-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are used to account for the District's general activity. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The G*eneral Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. It is considered a major fund.

The *2002 Capital Projects Fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and fund financial statements (Concluded)

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service, athletic and public library activities in the special revenue funds. None of the special revenue funds are considered major funds.

The D*ebt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. None of the debt service funds are considered major funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent for individuals or school-related organizations. Fiduciary funds are not included in the District's financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity. The two agency funds are comprised of the student activity fund and the flexible spending fund.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. The activity of the student loan program are reported here.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Concluded)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

D. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. State Revenue (Concluded)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

E. Other Accounting Policies

1. *Investments*

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. *Property Taxes*

Property taxes for the district are levied December 1 by the Townships of Leighton, Wayland, Carlton, Irving, Orangeville, Rutland, Thornapple, Yankee Springs, Campbell, Bowne, and Caledonia. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Allegan, Barry, Ionia, and Kent, through their delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Taxes uncollected are written off after three years from the date of the levy, unless material in amount.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Thornapple Kellogg Schools’ voters approved an operating millage extension of the 18 mill non-homestead property tax, and were levied in the District for 2004.

The District levied 7.0 mils in 2004 for debt service applied on all taxable property in the District.

Taxable property in the district is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the Sate of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill “School Operating” tax. It is not exempt from the 6 mill “State Education” tax, any voted “Local Enhancement Millage”, or any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. *Inventories*

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

4. Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

5. *Capital Assets*

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets life are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and other equipment	3-10 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

6. *Compensated Absences*

Severance pay, accumulated sick leave, and early retirement incentive at June 30, 2005, has been computed and recorded in the basic financial statements of the District. Eligible district employees who select early retirement are entitled to a termination leave payment based on their age and years of service. The liability for compensated absences includes salary related payments. In the fund financial statements only the matured liability is reported. The total liability is recorded in the district-wide financial statements.

7. *Long-term Obligations*

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Use of Estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district is under budgetary control and that both budgeted and actual financial results do not incur a deficit. Thornapple Kellogg Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Thornapple Kellogg Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance and Operations to establish proposed operating budgets for the fiscal year commencing in the following July 1.

- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.

- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.

- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	$ 1,377,877	0.0027	AAAm	21.4%
MILAF External Investment pool -MIMAX	2,315,161	0.0027	AAAm	35.8%
U.S. Agency Discount Notes	998,000	0.0594	A-1+	15.5%
U.S. Agency Notes and Bonds	190,247	0.0405	AAA	2.9%
Guaranteed Investment Contract (GIC)	1,568,881	0.0567	A1+	24.4%
Total fair value	$ 6,450,166			100.0%
Portfolio weighted average maturity		0.0257		

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, $1,853,004 of the District's bank balance of $1,959,254 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District's investments is the same as the value of the pool shares.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable disclosed in Note 6.

The Investment Agreement, dated as of August 20, 2004, by and among J.P. Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Michigan Municipal Bond Authority. Such Loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 2.59% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of $268,846	$ 1,501,134
Investments	6,450,166
	$ 7,951,300

The above amounts are reported in the financial statements as follows:

Cash - Agency Fund	$ 268,846
Cash - District wide	4,611,550
Investments - District wide	3,070,904
	$ 7,951,300

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not depreciated:				
Land	$ 760,000	$	$	$ 760,000
Construction in progress	15,428,391	4,562,194	10,674,132	9,316,453
Capital assets, being depreciated:				
Land improvements	827,176	1,263,903		2,091,079
Buildings and additions	34,085,769	9,585,334		43,671,103
Furniture and equipment	1,095,199	1,599,428		2,694,627
Vehicles	1,382,711	182,058	20,366	1,544,403
Total at historical cost	53,579,246	17,192,917	10,694,498	60,077,665
Accumulated depreciation:				
Land improvements	476,375	89,518		565,893
Buildings and additions	6,888,549	805,533		7,694,082
Furniture and equipment	769,094	416,719		1,185,813
Vehicles	1,166,161	85,934	20,366	1,231,729
Total accumulated depreciation	9,300,179	1,397,704	20,366	10,677,517
Net capital assets	$44,279,067	$15,795,213	$10,674,132	$49,400,148

NOTE 4 - CAPITAL ASSETS

Depreciation for the fiscal year ended June 30, 2005 was allocated to the following programs:

Instruction	$ 1,031,124
Support services	223,745
Community services	11,500
Food services	25,979
Athletics	105,356
	$ 1,397,704

NOTE 5 - NOTE PAYABLE

At June 30, 2005, the District has a note payable to the Michigan Municipal Bond Authority outstanding of $2,163,000. The note has an interest rate of 1.57% and matures August 19, 2005. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
$ 1,500,000	$ 2,163,000	$ 1,500,000	$ 2,163,000

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debts and other obligations currently outstanding are as follows:

2002 general obligation bonds due in annual installments of $600,000 to $1,600,000 through May 2028 with interest from 2.0 % to 5.5 %	$ 22,315,000
2004 refunding term bonds due in annual installments of $1,120,000 to $1,235,000 through May 2022 with interest from 2.0 % to 5.0 %	20,055,000
Total general obligation debt	42,370,000
Limited obligation (Durant) bonds due in annual installments of $20,136 to $90,956 through May 2013 with an interest rate of 4.76%. Certain future state aid payments have been pledged as security.	253,744
Total bonded debt	42,623,744
Borrowings from the State of Michigan under the School Bond Loan Program, including interest	6,949,314
Obligation under contract for compensated absences	246,352
Obligation under contract for early retirement	379,850
Obligation under contract for severance benefits	229,500
Capital lease obligation	13,672
Total general long-term debt	$ 50,442,432

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2005, including interest of $23,963,707 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	$ 1,855,956	$ 1,912,264	$ 3,768,220
2007	1,805,136	1,840,753	3,645,889
2008	1,856,099	1,793,070	3,649,169
2009	1,857,104	1,739,202	3,596,306
2010	1,838,156	1,680,699	3,518,855
2011-2015	9,666,293	7,282,919	16,949,212
2016-2020	10,370,000	4,873,800	15,243,800
2021-2025	8,675,000	2,367,250	11,042,250
2026-2027	4,700,000	473,750	5,173,750
Total	42,623,744	23,963,707	66,587,451
Due to School Bond Loan Fund	6,949,314		6,949,314
Accumulated compensated absences	246,352		246,352
Accumulated early retirement payable	379,850		379,850
Accumulated severance benefits	229,500		229,500
Capital lease	13,672		13,672
	$ 50,442,432	$ 23,963,707	$ 74,406,139

NOTE 6 - LONG-TERM DEBT (Concluded)

An amount of $669,630 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2005:

	Compensated absences/ early retirement and severance benefits	General obligation bonds	Limited obligation bonds	School bond loan fund	Capital lease	Total
Balance July 1, 2004	$ 1,045,180	$ 44,120,000	$ 253,744	$ 5,969,592	$ 48,543	$ 51,437,059
Additions	78,661			979,722		1,058,383
Deletions	(268,139)	(1,750,000)			(34,871)	(2,053,010)
Balance June 30, 2005	855,702	42,370,000	253,744	6,949,314	13,672	50,442,432
Less current portion	(224,221)	(1,765,000)	(90,956)		(13,672)	(2,093,849)
Total due after one year	$ 631,481	$ 40,605,000	$ 162,788	$ 6,949,314	$ -	$ 48,348,583

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005, was 12.99% through September 2004 and 14.87% for October 1, 2004 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2005, 2004, and 2003 were $1,852,132, $1,692,776, and $1,676,348, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 24 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to $175,000 and $1 million respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A $1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

NOTE 8 - RISK MANAGEMENT (Concluded)

The District is a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 19 districts pooling together to insure workers' compensation and employers' liability exposures. The fund pays the first $300,000 of any workers' compensation or employers' liability loss out of an $2,325,679 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts.

Health and life insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - SUBSEQUENT EVENTS

The District has approved borrowing $1,500,000 for fiscal year 2006 to replace the note payable as described in Note 6.

NOTE 10 - BOND COMPLIANCE

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2002 capital projects bond activity since inception:

	2002 Bond
Revenue and other financing sources	$ 25,015,640
Expenditures and transfers	$ 22,289,204

The above revenue amount includes net bond proceeds of $24,341,529.

NOTE 12 – OPERATING TRANSFERS

Operating transfers between funds during the year ended June 30, 2005 were as follows:

Fund	Operating transfers in	Operating transfers out
General	$ -	$ 430,000
Athletic	430,000	-
Debt service - 1996	-	340,518
Debt service - 2002	125,000	-
Debt service - 2004	215,518	-
	$ 770,518	$ 770,518

The general fund transferred $430,000 to the athletic fund to subsidize operations. The transfers from the 1996 debt fund of $125,000 to the 2002 fund and $215,518 to the 2004 fund were necessary to eliminate the 1996 debt fund.

NOTE 13 – INTERFUND BALANCES

Interfund balances at June 30, 2005 are as follows:

Fund	Interfund receivable	Interfund payable
General	$ 16,000	$ 62,059
Food service	-	16,000
Capital Projects	62,059	-
	$ 78,059	$ 78,059

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

REQUIRED SUPPLEMENTARY INFORMATION

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	$ 2,165,901	$ 2,335,263	$ 2,317,997	$ (17,266)
Intermediate sources	1,373,380	1,129,652	1,141,242	11,590
State sources	18,239,436	18,473,591	18,670,903	197,312
Federal sources	584,708	614,769	624,577	9,808
Total revenues	22,363,425	22,553,275	22,754,719	201,444
EXPENDITURES:				
Current:				
Instruction	13,100,015	12,901,905	12,702,276	199,629
Support services:				
Pupil	1,466,594	914,858	930,909	(16,051)
Instructional staff services	1,220,901	1,064,831	1,031,425	33,406
General administration	398,782	393,973	360,121	33,852
School administration	1,247,761	1,259,721	1,225,680	34,041
Business	586,155	511,397	550,771	(39,374)
Operations and maintenance	2,366,169	2,328,190	2,333,039	(4,849)
Pupil transportation	1,233,549	1,048,550	1,039,855	8,695
Central services	6,750	6,500	948	5,552
Community services	356,238	378,529	347,313	31,216
Interdistrict services	961,500	1,435,860	1,367,352	68,508
Capital Outlay	150,000	-	-	-
Total expenditures	23,094,414	22,244,314	21,889,689	354,625
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(730,989)	308,961	865,030	556,069
OTHER FINANCING USES:				
Operating transfers out	(430,000)	(430,000)	(430,000)	-
NET CHANGE IN FUND BALANCES	(1,160,989)	(121,039)	435,030	556,069
FUND BALANCES, beginning of year	2,692,953	2,692,953	2,692,953	-
FUND BALANCES, end of year	$ 1,531,964	$ 2,571,914	$ 3,127,983	$ 556,069

ADDITIONAL INFORMATION

THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005

	Special Revenue Funds			Debt Service Funds			
	Food service	Athletics	Public Library	1996 Debt	2002 Debt	2004 Debt	Total
ASSETS							
Cash	$ 68	$ 27,388	$ 6,933	$ -	$ 267,930	$ 401,671	$ 703,990
Taxes receivables	-	-	-	-	341	6,608	6,949
Other receivables	14,537	-	6,414	-	-	-	20,951
Inventories	23,141	-	-	-	-	-	23,141
TOTAL ASSETS	$ 37,746	$ 27,388	$ 13,347	$ -	$ 268,271	$ 408,279	$ 755,031
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 16,372	$ 2,612	$ -	$ -	$ -	$ -	$ 18,984
Due to other funds	16,000	-	-	-	-	-	16,000
Deferred revenue	-	-	-	-	334	6,586	6,920
Total liabilities	32,372	2,612	-	-	334	6,586	41,904
Fund balances:							
Reserved for debt service	-	-	-	-	267,937	401,693	669,630
Reserved for inventory	5,374	-	-	-	-	-	5,374
Designated for subsequent year's expenditures	-	5,299	10,575	-	-	-	15,874
Unreserved, undesignated	-	19,477	2,772	-	-	-	22,249
TOTAL FUND BALANCES	5,374	24,776	13,347		267,937	401,693	713,127
TOTAL LIABILITIES AND FUND BALANCES	$ 37,746	$ 27,388	$ 13,347	$ -	$ 268,271	$ 408,279	$ 755,031

THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005

	Special Revenue Funds			Debt Service Funds			
	Food service	Athletics	Public Library	1996 Debt	2002 Debt	2004 Debt	Total
REVENUES:							
Local sources	$ 567,582	$ 205,701	$ 7,132	$ 941,572	$ 1,279,097	$ 772,661	$ 3,773,745
Intermediate sources	-	-	24,004	-	-	-	24,004
State sources	49,242	-	12,843	-	-	-	62,085
Federal sources	244,597	-	-	-	-	-	244,597
Total revenues	861,421	205,701	43,979	941,572	1,279,097	772,661	4,104,431
EXPENDITURES:							
Food service	864,268	-	-	-	-	-	864,268
Athletics	-	635,007	-	-	-	-	635,007
Public library	-	-	50,400	-	-	-	50,400
Debt service	-	-	-	1,048,925	1,676,624	935,271	3,660,820
Total expenditures	864,268	635,007	50,400	1,048,925	1,676,624	935,271	5,210,495
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,847)	(429,306)	(6,421)	(107,353)	(397,527)	(162,610)	(1,106,064)
OTHER FINANCING SOURCES (USES):							
Proceeds from school bond loan fund	-	-	-	-	503,924	282,000	785,924
Interfund transfers	-	430,000	-	(340,518)	125,000	215,518	430,000
Total other financing sources (uses)	-	430,000	-	(340,518)	628,924	497,518	1,215,924
NET CHANGE IN FUND BALANCES	(2,847)	694	(6,421)	(447,871)	231,397	334,908	109,860
FUND BALANCES, beginning of year	8,221	24,082	19,768	447,871	36,540	66,785	603,267
FUND BALANCES, end of year	$ 5,374	$ 24,776	$ 13,347	$ -	$ 267,937	$ 401,693	$ 713,127

THORNAPPLE KELLOGG SCHOOLS
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	2005			2004
	Final budget	Actual	Variance Positive (Negative)	Actual
REVENUES:				
Local sources:				
Food sales	$ 566,620	$ 567,436	$ 816	$ 563,723
Interest on deposits	140	146	6	127
Miscellaneous	5,000	-	(5,000)	-
State sources	49,244	49,242	(2)	49,407
Federal sources	254,500	244,597	(9,903)	250,197
Total revenues	875,504	861,421	(14,083)	863,454
EXPENDITURES:				
Salaries and wages	260,255	236,531	23,724	259,145
Employee benefits	119,150	122,650	(3,500)	129,783
Purchased services	110,445	113,270	(2,825)	100,092
Food costs	315,000	316,782	(1,782)	322,719
Supplies, materials and other	77,055	75,035	2,020	66,132
Total expenditures	881,905	864,268	17,637	877,871
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,401)	(2,847)	3,554	(14,417)
FUND BALANCES, beginning of year	8,221	8,221	-	22,638
FUND BALANCES, end of year	$ 1,820	$ 5,374	$ 3,554	$ 8,221

THORNAPPLE KELLOGG SCHOOLS
ATHLETICS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	2005			2004
	Final budget	Actual	Variance Positive (Negative)	Actual
REVENUES:				
Local sources:				
Sales and admissions	$ 184,120	$ 193,303	$ 9,183	$ 133,676
Donations	12,210	12,211	1	7,486
Interest on deposits	85	87	2	295
Miscellaneous	-	100	100	358
Total revenues	196,415	205,701	9,286	141,815
EXPENDITURES:				
Salaries and wages	358,005	350,860	7,145	337,777
Employee benefits	95,680	102,803	(7,123)	67,566
Purchased services	78,337	78,032	305	56,021
Supplies, materials and other	107,660	103,312	4,348	105,073
Total expenditures	639,682	635,007	4,675	566,437
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(443,267)	(429,306)	13,961	(424,622)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	430,000	430,000	-	430,000
NET CHANGE IN FUND BALANCES	(13,267)	694	13,961	5,378
FUND BALANCES, beginning of year	24,082	24,082	-	18,704
FUND BALANCES, end of year	$ 10,815	$ 24,776	$ 13,961	$ 24,082

THORNAPPLE KELLOGG SCHOOLS
PUBLIC LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	2005			2004
	Final budget	Actual	Variance Positive (Negative)	Actual
REVENUES:				
Local sources:				
Township appropriated income	$ 2,256	$ 2,256	$ -	$ 1,500
Interest on deposits	55	48	(7)	74
Miscellaneous	4,215	4,828	613	7,936
Intermediate sources	23,800	24,004	204	30,146
State sources	12,821	12,843	22	14,762
Total revenues	43,147	43,979	832	54,418
EXPENDITURES:				
Salaries and wages	22,525	22,369	156	22,623
Employee benefits	4,285	4,172	113	4,238
Purchased services	16,580	16,635	(55)	13,321
Supplies, materials and other	7,445	7,224	221	8,016
Total expenditures	50,835	50,400	435	48,198
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,688)	(6,421)	1,267	6,220
FUND BALANCES, beginning of year	19,768	19,768	-	13,548
FUND BALANCES, end of year	$ 12,080	$ 13,347	$ 1,267	$ 19,768

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	Salaries	Employee benefits	Purchased services	Supplies, materials and other	Total actual expenditures	2004
EXPENDITURES						
Instruction						
Basic programs:						
Elementary	$ 3,057,135	$1,472,809	$ 10,961	$ 126,115	$ 4,667,020	$ 4,434,209
Middle school	1,784,173	834,253	11,342	86,001	2,715,769	2,694,245
High School	2,498,251	1,078,303	22,331	167,790	3,766,675	3,744,072
Readiness	25,988	7,845	613	484	34,930	35,438
Added needs:						
Special education	740,186	374,291	861	6,652	1,121,990	1,138,455
Compensatory education	248,982	120,770	4,300	1,079	375,131	402,450
Vocational education	3,320	748	2,008	14,685	20,761	15,588
Total instruction	8,358,035	3,889,019	52,416	402,806	12,702,276	12,464,457
Support Services						
Pupil:						
Attendance services	53,060	29,684	-	-	82,744	76,435
Guidance services	424,324	186,793	2,031	17,160	630,308	568,149
Occupational therapists services	1,220	652	209	1,092	3,173	13,777
Psychological services	4,875	1,504	180	1,513	8,072	136,584
Speech pathology and audiology	-	-	420	1,181	1,601	186,206
Social work services	-	16,886	95	294	17,275	107,503
Teacher consultant	-	-	5,680	695	6,375	93,047
Other pupil services	120,997	60,364	-	-	181,361	134,921
Instructional staff services:					-	
Improvement of instruction	138,374	43,829	33,500	8,127	223,830	234,005
Library	215,975	114,242	3,849	16,606	350,672	343,767
Computer assisted instruction	135,022	78,138	51,907	40,108	305,175	311,667
Special education administration	99,621	48,908	1,783	1,436	151,748	143,776

	Salaries	Employee benefits	Purchased services	Supplies, materials and other	Total actual expenditures	2004
EXPENDITURES (Concluded):						
General administration						
Board of education	$ -	$ -	$ 82,022	$ 13,331	$ 95,353	$ 112,268
Executive administration	181,124	67,911	10,305	5,428	264,768	244,637
School administration	813,589	372,621	23,824	15,646	1,225,680	1,188,895
Business:					-	
Fiscal services	207,939	142,983	20,728	3,733	375,383	299,889
Internal services	12,811	4,888	-	1,616	19,315	19,953
Other business services	-	-	80,695	75,378	156,073	172,884
Operation and maintenance:					-	
Operation and maintenance	911,487	509,498	281,783	618,747	2,321,515	2,052,994
Security services	-	-	11,524	-	11,524	20,936
Pupil transportation	494,847	323,517	35,630	185,861	1,039,855	1,005,211
Central services:					-	
Personnel services	-	-	948	-	948	2,613
Total supporting services	3,815,265	2,002,418	647,113	1,007,952	7,472,748	7,470,117
Community Services						
Community services:						
Community services director	79,685	42,720	788	90	123,283	118,012
Community recreation	63,371	24,231	3,308	2,896	93,806	69,991
Custody and care of children	75,824	17,399	-	5,007	98,230	82,008
Drivers education	20,567	2,340	9,087	-	31,994	38,216
Total community services	239,447	86,690	13,183	7,993	347,313	308,227
Payments to Other Public Schools in Michigan:						
Interdistrict services	-	-	1,367,352	-	1,367,352	881,185
Total expenditures	12,412,747	5,978,127	2,080,064	1,418,751	21,889,689	21,123,986
OTHER FINANCING USES:						
Operating transfers out to athletics fund	-	-	-	430,000	430,000	430,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	$ 12,412,747	$5,978,127	$2,080,064	$1,848,751	$ 22,319,689	$ 21,553,986

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2005

$24,115,000 Bonds issued November 6, 2002:

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 600,000	$ 530,263	$ 530,263	2006	$ 1,660,526
600,000	522,613	522,613	2007	1,645,226
600,000	514,063	514,063	2008	1,628,126
600,000	504,613	504,613	2009	1,609,226
600,000	494,413	494,413	2010	1,588,826
600,000	483,613	483,613	2011	1,567,226
600,000	472,513	472,513	2012	1,545,026
690,000	461,113	461,113	2013	1,612,226
795,000	442,138	442,138	2014	1,679,276
900,000	420,275	420,275	2015	1,740,550
910,000	395,525	395,525	2016	1,701,050
920,000	370,500	370,500	2017	1,661,000
925,000	347,500	347,500	2018	1,620,000
925,000	324,375	324,375	2019	1,573,750
925,000	301,250	301,250	2020	1,527,500
1,025,000	278,125	278,125	2021	1,581,250
1,125,000	252,500	252,500	2022	1,630,000
1,375,000	224,375	224,375	2023	1,823,750
1,425,000	190,000	190,000	2024	1,805,000
1,475,000	154,375	154,375	2025	1,783,750
1,525,000	117,500	117,500	2026	1,760,000
1,575,000	79,375	79,375	2027	1,733,750
1,600,000	40,000	40,000	2028	1,680,000
$ 22,315,000	$ 7,921,017	$ 7,921,017		$ 38,157,034

The above bonds have interest rates from 2.0% to 5.5%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2005

$20,230,000 Bonds issued May 25, 2004:

Principal due May 1,	Interest due May 1,	Interest due November 1,	Debt service requirement for fiscal year June 30,	Debt service requirement for fiscal year Amount
$ 1,165,000	$ 405,538	$ 405,538	2006	$ 1,976,076
1,185,000	393,888	393,888	2007	1,972,776
1,235,000	379,076	379,076	2008	1,993,152
1,235,000	362,094	362,094	2009	1,959,188
1,215,000	343,569	343,569	2010	1,902,138
1,220,000	322,307	322,307	2011	1,864,614
1,215,000	299,432	299,432	2012	1,813,864
1,205,000	269,057	269,057	2013	1,743,114
1,190,000	245,710	245,710	2014	1,681,420
1,175,000	221,613	221,613	2015	1,618,226
1,165,000	197,525	197,525	2016	1,560,050
1,160,000	168,400	168,400	2017	1,496,800
1,155,000	139,400	139,400	2018	1,433,800
1,145,000	110,525	110,525	2019	1,366,050
1,140,000	81,900	81,900	2020	1,303,800
1,130,000	56,250	56,250	2021	1,242,500
1,120,000	28,000	28,000	2022	1,176,000
$ 20,055,000	$ 4,024,284	$ 4,024,284		$ 28,103,568

The above bonds have interest rates from 2.0% to 5.0%. The bond proceeds were used to refinance the 1996 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2005

$253,744 Durant Bond – issued on November 13, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year June 30,	Amount
$ 90,956	$ 40,662	2006	$ 131,618
20,136	7,751	2007	27,887
21,099	6,792	2008	27,891
22,104	5,788	2009	27,892
23,156	4,735	2010	27,891
24,259	3,633	2011	27,892
25,412	2,477	2012	27,889
26,622	1,267	2013	27,889
$ 253,744	$ 73,105		$ 326,849

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the District (the “State Aid Payments”). The District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s depository.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN PROGRAM
JUNE 30, 2005

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2002	$ -	$ -	$ 4,073,932
2003	69,011	139,234	208,245
2004	1,544,886	142,529	1,687,415
2005	785,924	193,798	979,722
Totals June 30, 2005	$ 2,399,821	$ 475,561	$ 6,949,314

THORNAPPLE KELLOGG SCHOOLS

ADDITIONAL REPORTS REQUIRED BY

OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2005

C O N T E N T S

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

September 1, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2005, which collectively comprise Thornapple Kellogg Schools' basic financial statements and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thornapple Kellogg Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

544 Cherbourg Drive • Suite 200 • Lansing, Michigan 48917-5010 • (517) 323-7500 • Fax (517) 323-6346 • www.mcecpa.com

To the Board of Education
Thornapple Kellogg Schools

September 1, 2005

We noted certain matters that we reported to management of Thornapple Kellogg School in a separate letter dated September 1, 2005.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

September 1, 2005

Compliance

We have audited the compliance of Thornapple Kellogg Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Thornapple Kellogg Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on Thornapple Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Thornapple Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Thornapple Kellogg Schools' compliance with those requirements.

In our opinion, Thornapple Kellogg Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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To the Board of Education
Thornapple Kellogg Schools

September 1, 2005

Internal Control Over Compliance

The management of Thornapple Kellogg Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Thornapple Kellogg Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
U.S. Department of Agriculture:								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
NSL - breakfast	10.553	041970	$ 22,202	$ 608	$ 20,276	$ 2,536	$ 1,928	$
		051970	20,406			19,225	20,406	1,181
			42,608	608	20,276	21,761	22,334	1,181
National School Lunch	10.555	041950	65,313	1,210	58,193	8,330	7,120	
		051950	51,742			49,715	51,742	2,027
		041960	142,942	2,737	127,715	17,964	15,227	
		051960	113,154			108,377	113,154	4,777
			373,151	3,947	185,908	184,386	187,243	6,804
Total Child Nutrition Cluster			415,759	4,555	206,184	206,147	209,577	7,985
Commodities: Food Distribution								
Entitlement	10.550		30,963			30,963	30,963	
Bonus			4,057			4,057	4,057	
			35,020			35,020	35,020	
Total U.S. Department of Agriculture			450,779	4,555	206,184	241,167	244,597	7,985

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
U.S. Department of Education:								
Passed through Kent Intermediate School District:								
Special Education Cluster:								
Special Education Transitions	84.027	040450/0304	$ 291,719	$ 114,936	$ 291,719	$ 114,936	$	$
		050450/0405	364,287			218,453	364,287	145,834
			656,006	114,936	291,719	333,389	364,287	145,834
Individuals with Disabilities Education Act	84.027A	040480-TMT	394	394	394	394		
		050480-TMT	427			427	427	
		040490TS	1,666		1,666	1,666	1,666	
		050490TS	1,666			1,666	1,666	
			4,153	394	2,060	4,153	3,759	
Individuals with Disabilities Education Act	84.173	040460/0304	15,199	6,068	15,199	6,068		
		050460/0405	16,665			9,875	16,665	6,790
			31,864	6,068	15,199	15,943	16,665	6,790
Total special education cluster			692,023	121,398	308,978	353,485	384,711	152,624

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
U.S. Department of Education (concluded):								
Passed through the Michigan Department of Education :								
Title I	84.010	051530/0405	$ 131,031	$	$	$ 131,031	$ 131,031	$
Title V	84.298	050250/0405	1,755			1,755	1,755	
Title II Part D	84.318	054290/0405	3,309			3,309	3,309	
Improving Teacher Quality	84.367	050520/0405	84,744			84,744	84,744	
Safe & Drug Free Schools	84.186	052860/0405	10,032			10,032	10,032	
			1,200			1,200	1,200	
			11,232			11,232	11,232	
Total passed through Michigan Department of Education			232,071			232,071	232,071	
Total U.S. Department of Education			924,094	121,398	308,978	585,556	616,782	152,624
U.S. Department of Health and Human Services:								
Passed through Kent Intermediate School District:								
Medicaid Outreach	93.778	2004-05	7,795				7,795	7,795
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 1,382,668	$ 125,953	$ 515,162	$ 826,723	$ 869,174	$ 168,404

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Thornapple Kellogg Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.

2. The special education cluster (CFDA # 84.027 and #84.173) was audited as the major program, representing 44% of expenditures.

3. The threshold for distinguishing Type A and Type B programs was $300,000.

4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$ 624,577
Special revenue fund	244,597
	$ 869,174

6. Program clusters contained within the schedule are as follows:

   Child nutrition cluster consists of CFDA #10.553and #10.454.

   Special education cluster consists of CFDA #84.027, #84.027A and #84.173.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
* Material weakness(es) identified:		Yes	X	No
* Reportable condition(s) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified:		Yes	X	No
* Reportable condition(s) identified that are not considered to be material weakness(es)?		Yes	X	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

There were no audit findings in the prior two years.

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

September 1, 2005

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

In planning and performing our audit of the financial statements of Thornapple Kellogg Schools for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 1, 2005, on the financial statements of Thornapple Kellogg Schools.

New Rules For §403(b Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used.

The IRS recently announced that they are delaying the effective date for these rules until plan years beginning after December 31, 2006. We recommend you contact your attorney for assistance.

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Fixed Assets

The District utilizes an internally developed spreadsheets for depreciating property, plant, and equipment. The District should consider investing in a depreciation software package. Such software will assist in keeping the database accurate and up-to-date. Using the software, the District can also make monthly updates to records for any new additions or disposals and can calculate any gains or losses on disposal. This will save the district time at year-end. Also, utilizing a software package will allow others within the department access to inputting the information.

Payroll

On certain occasions we noted that approval was not documented on the time cards. We recommend that all time for maintenance and other hourly staff be approved.

Adjusting journal entries

We observed that support for adjusting journal entries was not always maintained within the accounting department. We would recommend maintaining a folder or a binder for retaining the support for each journal entry. We also noted that the accounting personnel entered journal entries without the approval of the Director of Finance. We would recommend that the Director of Finance approve all journal entries.

Segregate Bank Reconciliation Duties

We noted during our audit the person who receives the unopened bank statement also prepares the bank reconciliation. We recommend someone other than the person who prepares the bank reconciliation, open the bank statement and scan canceled checks and other transactions for any unusual or improper items and account for the numerical sequence of checks.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Thornapple Kellogg Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan & Ellis, P.C.

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

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Leon A. Ellis (1933-1988)

September 1, 2005

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

We have audited the financial statements of Thornapple Kellogg Schools for the year ended June 30, 2005 and have issued our report thereon dated September 1, 2005. Professional standards require that we provide you with the following information related to our audit.

1. <u>Our Responsibility under Auditing Standards Generally Accepted in the United States of America</u>

As stated in our engagement letter dated May 10, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Thornapple Kellogg Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Thornapple Kellogg School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Thornapple Kellogg School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Statement" applicable to each of its major federal programs for the purpose of expressing an opinion on Thornapple Kellogg School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Thornapple Kellogg School's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Thornapple Kellogg Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Thornapple Kellogg Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was approximately $850,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain fixed assets were originally recorded using an external appraisers estimates. Certain allocations on the statement of activities are based on estimates.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Thornapple Kellogg School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Thornapple Kellogg School, either individually or in the aggregate, indicate matters that could have a significant effect on the Thornapple Kellogg School's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. <u>Consultations with Other Independent Accountants</u>

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. <u>Issues Discussed Prior to Retention of Independent Auditors</u>

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Thornapple Kellogg School’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. <u>Difficulties Encountered in Performing the Audit</u>

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Board of Education and management of Thornapple Kellogg School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan & Ellis, P.C.

(J:\lm\2005\ThornappleKelloggSchools-SAS)